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The Insurance of Thrift

By JOHN A. LAPP

Managing Editor of *Modern Medicine*; Educational Director, National Catholic War Council

THERE is probably no one who doubts the value of saving both for its results in character and the material security which it brings to the individuals who have succeeded in accumulating property. The thrifty individual is more likely to be a good citizen than the unthrifty, and he is more likely to be able to take care of himself and his family in the ordinary course of life. On the other hand, it is equally clear that the narrow type of thrift advocated by some, does not always make good citizens, nor result with certainty in the safeguarding of the individual and his family particularly in the emergencies of life.

THE NATURE OF REAL THRIFT

Thrift which develops selfishness, and which sacrifices the physical and moral welfare of the individual will increase the hazards of life, especially those of sickness and dependent old age, and decrease the relative power to overcome them. A recent advertisement in one of our large cities flared forth the message to the working man that the first payment from the weekly wage should be made to the savings account. This statement plainly ignores fundamentals and gives an erroneous idea of what thrift really is. It is axiomatic that the worker and his family must be sustained in vigorous health as the first consideration. If wages are high enough to allow savings after the needs of the family are met, it is an act of thrift to put money into a

savings account, otherwise it is the negation of thrift. To encourage men to save at the expense of milk for the babies, or adequate nourishment for the worker and his family is to encourage destructive selfishness which should be condemned by those who put permanent social interests above present pseudo-thrift.

This observation will help to define thrift as used in this article. Mere accumulation of property is not thrift as here used. A savings account or the purchase of a home is not necessarily a sign of thrift as here understood. If a worker has borrowed from his fund of physical energy to put money in a savings account, it is a disastrous form of thrift; he has merely taken a part of his vital resource and turned it into property. If a worker saps his physical power for the sake of a money savings, he will soon exhaust his physical bank account.

Thrift is broader than mere saving. It is to the individual what conservation is to the nation. It does not consist in hoarding resources, but rather in their wise use. The weekly wage properly spent is thrift, even though not a penny may have been put into a savings account or the purchase of a home.

The thrifty person will spend his income to meet certain definite needs in about the following order:

First, he will provide for himself and his family the necessities of life and such comforts and luxuries as will sustain himself and

his family in the best physical condition, and will take advantage of opportunities which will increase his competence.

Second, he will look after the health and moral welfare of himself and his family, and expend such sums as will safeguard them against physical and moral decay.

Third, he will provide against the calamities of life, namely unemployment, accidents, sickness, old age and dependency of his family in the case of his death. Then, if there is anything left over, it may properly be used for what is generally denominated as thrift, and for such additional pleasures as he may choose.

Absolutely nothing can be spared from the first necessity as stated above. To sustain the working power of the individual and the physical welfare of his family are paramount to every other consideration. Scarcely of less importance, although materially not so pressing, is the safeguarding of the morals of the worker and his family. It may be said that thrift is specially designed to meet the third requirement, namely protection against the hazards of life. It will be the purpose of this paper to show that thrift by itself cannot provide for the rank and file of men against these hazards.

THRIFT AND THE HAZARDS OF LIFE

The advocates of individual saving as a means of providing against the hazards of life seem to go on the theory that these hazards confront every one in like degree. They ignore the unequal distribution of the burden which the contingencies of unemployment, sickness, accident, old age and death throw upon certain people.

They seem to conceive of life from the standpoint of those few individuals who escape the serious disasters which these contingencies of life bring.

If we could assume that all human beings were born with equal physical and mental stamina; that they were given an adequate preparation for life; that they never had to go without work for a great length of time; that they never had sickness of more than a few days duration; that they could hold their positions as long as they lived; that they will not live for an extended time beyond the point when they are compelled by advancing years to quit work; and that they will not die at a time when small children call for protection, we could rely upon individual thrift to provide for our wants throughout life. But life is not lived that way by the majority of people. Some are born with physical or mental weaknesses; some are handicapped by accidents or diseases in early life; some have sickness either of the worker or members of the family lasting months or years; in periods of depression some may be out of employment for months; large numbers live many years beyond the time when they can earn their living; while thousands die in the prime of life, leaving helpless dependents. Still others, from one calamity or another, such as fire, business failures, bank failures, and stock swindlers, lose the accumulation which they may have saved to meet life's contingencies. Mere saving by itself cannot provide safeguards against the overwhelming character of one of these many disasters that may come to the thrifty and thriftless alike. Individual thrift, as usually understood, cannot

provide for these calamities because none of these calamities can be measured in the life of an individual.

No one can tell the extent to which one of these calamities may affect him. One cannot tell whether he is to be sick six days or six months during the coming year, or how many months unemployment may be forced upon him by business depression, or know the length of his years beyond working life. These are uncertainties which can be measured for a large group of people but which cannot even be approximated for a single individual.

A man may, by saving, accumulate \$10,000 and see it all swept away by a single prolonged illness. A thrifty couple may provide themselves with a home, but at sixty-five they cannot be assured that it will protect them for the three or the thirty years which they may yet live.

CAUSES FOR ECONOMIC DEPENDENCE

Sickness.—Let us examine some of the hazards of life in greater detail. Sickness is the most calamitous of the hazards of life. A large part of our troubles find their roots in sickness. More people are doomed to economic dependence and destitution by sickness than by any other cause, or in fact by all other causes combined. Sickness picks its victims at random, sparing neither rich nor poor, thrifty nor thriftless. Yet the total amount of sickness is easily measured.

We know from innumerable statistical data that the average sickness for all working people will be about nine days every year. Now, if the total sickness were distributed evenly, nine days to each person, ordinary

thrift could take care of the problem. If each man expects to lose nine days by sickness each year, he could lay aside a sum equal to nine times his daily wage and an equal amount to pay for medical care and he would thereby have a fund equal to the amount which he loses on account of sickness. It is absurd, however, to talk in terms of average amounts of sickness, and draw conclusions therefrom. Sickness does not distribute itself nine days to each person. Many escape entirely; a large part of those who are sick are disabled from working for only a few days. Some are sick for weeks, others for months, while a considerable number are disabled for years.

Instead of being distributed nine days to each person, the distribution in an ordinary year will be as follows: 80 per cent of the workers escape serious sickness; 20 per cent suffer the entire loss in a given year. Of the 20 per cent who are sick, 65 per cent are sick for less than four weeks; 20 per cent are sick from four weeks to eight weeks; 7 per cent are sick from eight to twelve weeks; 6 per cent from twelve to twenty-seven weeks, 3 per cent for more than six months, and 1.3 per cent for more than a year. Applying these figures to the United States we find that of the thirty-eight million people engaged in gainful employment, the chief burdens of sickness for a year, excluding the insane, defective, and institutional classes, are borne by 7,600,000 workers. Of these, 4,940,000 are sick for less than four weeks; 1,520,000 are sick from four to eight weeks; 532,000 are sick from eight to twelve weeks; 456,000 are sick from twelve to twenty-six weeks; 228,000 are sick for more than six months, while 98,800 are

sick for more than a year. The existing figures do not show us the number who are sick for more than two years or who are permanently disabled.

The distribution of medical cost tells exactly the same story. The bulk of families escape, while the burden falls disastrously upon those who happen to be sick for the longest periods and, of course, it falls at the time when the victim is least able to bear it. The conclusion from these figures is obvious. Ordinary individual thrift may provide against sickness for those who are disabled for short periods. It cannot provide against the calamity of a three, six, nine, or twelve months' sickness, which the figures indicate is suffered by more than three-quarters of a million working people every year.

Unemployment.—The same story may be repeated with regard to unemployment, particularly in the great centers of population. Men cannot know whether the wheel of fortune is going to bring them continuous employment or whether they will be compelled to wait for weeks or months for the chance to earn a living. Periods of depression such as those of the winter of 1908 and the years of 1914 and 1915 compel thousands in industrial centers to use up the little savings which they may have or to depend upon friends or upon charity.

The calamity of unemployment is not so wide-spread, nor so severe as that of sickness. It affects primarily the wage earners in the larger centers. Rural communities and small towns escape acute manifestations. The small owner or operator is not immediately affected. Moreover the loss is merely of wages, whereas in sickness, the loss is doubled through the cost

of medical care. A savings account will help in this as in any other emergency but it should not be relied upon to meet the uncertainty.

Accidents.—The calamity of accidents falls also at random on the workers but the need for the distribution of the burdens, and the need for the distribution of the employer's liability have been so obvious that 42 states have already passed workmen's compensation laws for industrial accidents, under which the economic burden is taken from the backs of the injured workers and distributed over all of the people. Thrift failed to meet the calamity of accident because the individual risk was not measurable. Insurance was applied to measure the risk for the group and ease the burden for the unlucky individual who was injured.

Old Age.—When we come to the discussion of individual thrift as a provision for old age, we consider a hazard far more indeterminable for the individual than sickness, unemployment, or accident. The hazard of old age really involves all of the other hazards. If a man escapes serious illness and accident throughout life, both of himself and his family, and escapes long periods of unemployment, and has been thrifty and likewise possessed of business ability enough to safe-guard his thrift, he may have enough to meet the hazard of old age whether he lives one or thirty years beyond the time that failing physical powers compel him to quit work. Few, however, do escape one or another of the calamities of life, and the great majority approach old age with the necessity of relying upon their children or upon private or public charity to take care of them in their last years.

When a man has worked through life for meager wages, perhaps scarcely sufficient to maintain physical vigor, and from these meager wages has been compelled to meet individually the cost of sickness, accidents, and unemployment, he is not likely to be possessed of any considerable amount when he reaches the age of 65, even though he be possessed of unusual qualities of thrift. The hazards of life prevent the majority from remaining independent in old age. Figures gathered by the Ohio Health and Old Age Insurance Commission indicate that among 500 old people in private institutions for the aged, 40 per cent were there on account of previous sickness; 19.6 per cent on account of misfortune; 12 per cent on account of intemperance; 11.8 per cent on account of low wages; 10 per cent on account of improvidence, and 5.8 per cent unknown. Similar figures for 1,600 inmates of county infirmaries indicated that 36 per cent were there on account of sickness; 11 per cent on account of improvidence; 29 per cent on account of intemperance; 11 per cent on account of low wages, and the rest unclassified.

As indicative of the way in which people lose money, it was found that among 150 former property owners, 70 had lost their property by business failure; 61 by poor investment; 17 by bad loans; 2 by illness and 9 by improvidence. These figures are merely illustrative of the hazards which must be met before reaching old age.

If we could assume that many people escape all of these hazards, and have at 65 years of age a small competence, we then come to the real hazard of old age. Most of the people at 65 are no longer employed.

They must depend, therefore, upon their savings of former years. A few may have small business or farm interests which they continue to guide; a few skilled and professional workers remain in employment beyond this age; unskilled laborers and also many skilled laborers have practically no employment. Those who have a small competence as well as those who have not, are faced with the problem of providing for an uncertain length of years.

Half of the people 65 years of age will live to be 75. Of those who reach 75, half will live to be 81; and of those who reach 81, half will live to be 85. In a group of 10,000 people at 65 years of age, 5,000 will live to be 75; 2,500 will live to be 81, and 1,250 will live to be 85. It will be observed that a large number of aged people live more than twenty years beyond 65. A goodly number live beyond 90 and 95. The small savings at 65 must be spread over a possible span of one to thirty years to take care of the aged person. If the savings are large enough so that the income will provide annually for expenses, he is secure for the rest of his life unless of course the rising costs of living reduce the value of his income. In such case, he does not dare use any part of his principal because the principal is his safe-guard against dependency if he happens to live for many years. If he uses his principal he may later become dependent. If he depends upon the income, even if it is sufficient for the time being, his life is one of uncertain, if not precarious, independence. The logical way for him to manage his affairs is to combine with his fellows through the medium of insurance to buy himself an annuity for as long as he may

live. The individual cannot measure the hazards of old age for himself, but the group can measure the hazards for the whole because it can be figured exactly how much money is needed to pay a certain sum to the survivors in the group.

INDIVIDUAL THRIFT SUPPORTED BY INSURANCE

We are faced then in the determination of thrift with several other important considerations:

(1) The question of thrift is bound up with the question of wages. There can be no real thrift without adequate wages. (2) The saving of money should not be encouraged to the detriment of physical and moral stamina. (3) The calamities of life for the great majority cannot be provided against with certainty by individual thrift. (4) The hazards of sickness, accidents, unemployment, and dependent old age, while not measurable for individuals are measurable for groups. (5) Individuals, by combining together through insurance are able to distribute the extra burdens of life in such a way as to prevent individual calamity and thus enable one to provide by normal savings against abnormal contingencies.

Individual thrift is building houses upon sand unless supported upon the foundation of insurance. Individual thrift will help in normal contingencies, but will be of slight assistance, except in rare instances, in those serious calamities which should receive most careful consideration. The application of the insurance prin-

ciple in the safeguarding of thrift is the obvious solution of the problem. But this cannot be done by relying upon private initiative and enterprise. All experience shows that the bulk of the people are not forehanded enough to see the necessity for insurance. The great majority are fatalists in such matters as sickness, accident and dependent old age. Moreover private insurance increases the cost abnormally because of the expense of securing and maintaining business. From 50 per cent to 60 per cent of the premiums from casualty insurance go to the private owners for management and profit, and even greater per cents of premiums in burial insurance go for the same purpose. Purchasers of old age annuities pay large toll to private insurance companies. It is entirely wrong to attempt to safeguard thrift by compelling thrift to pay tribute to private profit. It is plain logic to suggest that thrift be safe-guarded by means of public, mutual, social insurance. It is the practical business-like way. Such insurance is collective public thrift. Business provides a depreciation fund for plant and machinery. Society should form a depreciation fund for human values. The fact that scarcely any of the hazards of old age and unemployment, and not two per cent of the hazards of sickness are provided against by insurance at present, indicate that existing insurance agencies are not solving the problem. The example of almost universal accident insurance for workmen in industries points to the proper solution of the problem.